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FBR probes into misuse of tax exemption to remittances

KARACHI: The Federal Board of Revenue (FBR) is gleaning financial transaction details of people who receive more than Rs5 million of remittances annually after it has discovered misuse of tax exemption given to the foreign inflows.

The sources said tax offices issued instructions to all the banks and exchange companies dealing in foreign remittances to provide details of the recipients.

A FBR official confirmed that executives and directors of corporate entities were found sending their undeclared income abroad through various channels and bringing it back in the shape of home remittances, which attract no income tax.

“During a scrutiny a tax office discovered that a high net-worth individual concealed actual income to the tune of \$400 million and declared the same as home remittances,” the official said, requesting anonymity.

The official said scrutiny of income declared by high net-worth individuals led to reduction in actual earnings of companies.

The official said the FBR would ask source of remittances exceeding \$31,446 in a year from individuals in line with a budgetary measure. The government, through Finance Act 2019, reduced the limit of foreign remittances exempted from source declaration to \$31,446 or Rs5 million from Rs10 million.

“The measure was taken to prevent incidents of money laundering particularly by high net-worth individuals, who grossly misused the incentives granted on home remittances,” the official said.

Home remittances remained exempted from any questioning of sources since year 2004. However, through Finance Act 2018, a restriction was imposed and remittances equivalent to Rs10 million were granted exemption from questioning. The threshold was further reduced to Rs5 million only in one year after identification of the misuse.

There is a section (111 of Income Tax Ordinance 2001) that deals with unexplained income of individuals and companies. If an individual fails to explain the source of income, the tax offices are authorised to impose tax along with penalties. The condition was not applicable under Section 111(4)(a) in terms of home remittances; the section was introduced to encourage home remittances into the country.

The FBR, explaining the latest changes into the section through Finance Act 2019, said if any amount is credited in a person’s books of accounts or a person has made any investment or is the owner of any money or has incurred expenditure or has concealed income and the person offers no explanation about the such amount or the value of such investment, money, expenditure or income is added to person’s income chargeable to tax.

The FBR said the provision was not applicable to any amount of foreign exchange, which was not exceeding Rs10 million in a tax year remitted from outside Pakistan through normal banking channels that was encashed into rupees by a scheduled bank and a certificate to this effect was produced from such bank. The Finance Act 2019 cut the limit of Rs10 million to Rs5 million, the FBR added.

“So if the amount of foreign exchange remitted from outside Pakistan is equivalent, in rupees terms, up to Rs5 million in a tax year, the source of such foreign remittances cannot be asked,” the FBR said. If the amount of foreign remittances is more than Rs5 million in a tax year, the commissioner Inland Revenue could only ask the source of foreign remittance.

The FBR said if the source is explainable, no further proceedings would be undertaken. “Only if the foreign remittance’s source is not explainable, such amount will be added in income chargeable to tax,” it added.